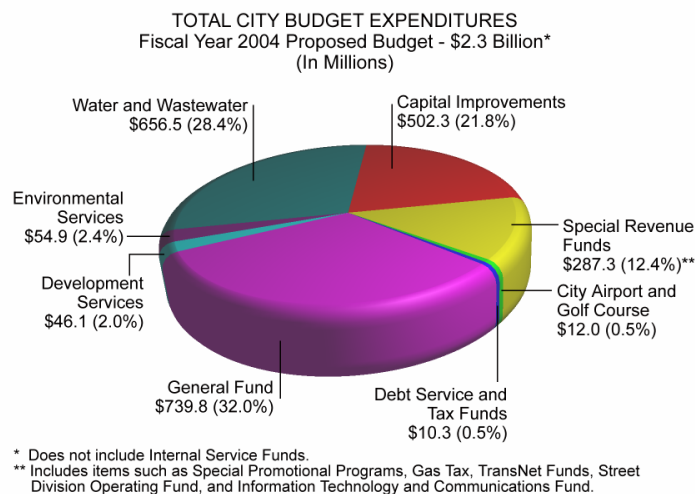


## Executive Summary

The process of developing the Fiscal Year 2004 Proposed Budget was a difficult endeavor given the economic conditions that have prevailed over the last 18 months, in addition to unfavorable economic forecasts. Budgeting is a revenue-driven process. When the revenues are not available, difficult decisions have to be made to bring expenses in line with estimated revenues. The strategy used in preparing this budget involved a variety of approaches.

As the different proposed solutions were discussed and reviewed, it should be noted that all departments were impacted and have contributed to solving this fiscal challenge in some way. Some departments have reduced expenditures in their department or in a related program while other departments have contributed by enhancing departmental or Citywide revenues. Regardless, the solutions are not easy choices but are proposed in order to provide City services at levels that can be supported by forecasted revenues. The budget also includes increased revenues where possible, and in several cases an entrepreneurial approach was used by shifting work to revenue generating areas to avoid further reductions. This proposed budget does not include the use of reserves to balance the General Fund budget. Service levels have been impacted and some City facilities will see reduced hours of operation.

The City's Total Combined Fiscal Year 2004 Proposed Budget is \$2.3 billion. The Proposed Budget includes \$739.8 million for General Fund expenditures, \$769.4 million for Enterprise Fund operations, \$287.3 million for Special Revenue Funds, \$10.3 million for Debt Service and Tax Funds, and \$502.3 million for Capital Improvements Program expenditures.



The Fiscal Year 2004 Proposed Budget includes a total of 11,076.62 positions, a net reduction of 159.17 for the Total City Budget. It eliminates 20.75 unclassified management positions Citywide. Seven of the positions being reduced are limited or supplemental and are not reflected in the Fiscal Year 2003 Annual Budget.

The City's Total Combined Fiscal Year 2004 Proposed Budget is funded primarily through five types of funds: General Fund, Enterprise Funds, Special Revenue Funds, Capital

# Executive Summary

Improvement Funds and Debt Service and Tax Funds. The breakdown among funds (including the change from the Fiscal Year 2003 Annual Budget) is as follows:

Major Expenditure Category	FY 2004 Proposed Budget	Change from FY 2003
General Fund	\$ 739,846,953	\$ 10,516,431
Enterprise Funds	\$ 769,440,195	\$ 89,125,924
Capital Improvement Funds	\$ 502,335,451	\$ 90,935,030
Special Revenue Funds	\$ 287,326,391	(\$ 1,095,148)
Debt Service and Tax Funds	\$ 10,328,800	(\$ 661,289)
<b>TOTAL</b>	<b>\$2,309,277,790</b>	<b>\$188,820,948</b>

## Personnel Resources

The Fiscal Year 2004 Proposed Budget includes a total of 11,076.62 positions. The General Fund is comprised of 6,964.92 positions. The number of positions budgeted in Special Revenue Fund departments is 681.46. Positions budgeted in Enterprise Funds equal 2,806.68, with 859.74 budgeted in the Water Department and 1,054.72 in the Metropolitan Wastewater Department. The remaining 623.56 positions are budgeted in other departments and programs. Specific detail on position adjustments is included in the Budget Summary Schedule II in the Financial Summary section and in the respective department detail in Volumes II and III.

### Total City Position Changes

	FY 2003	Proposed FY 2004	Change
Total General Fund	7,171.55	6,964.92 <sup>(1)</sup>	(206.63)
Total Special Revenue Funds	636.11	681.46 <sup>(1)</sup>	45.35
Total Sewer Funds	1,058.72	1,054.72	(4.00)
Total Water Funds	855.74	859.74	4.00
Total Other Enterprise Funds	893.22	892.22	(1.00)
Total Internal Service Funds	549.81	548.81	(1.00)
Total Other Funds	70.64	74.75	4.11
<b>Total Budgeted Positions</b>	<b>11,235.79</b>	<b>11,076.62</b>	<b>(159.17)</b>

<sup>(1)</sup> Reflects Information Technology and Communications (IT&C) Department transfer between General Fund and Special Revenue Funds.

## General Fund Revenues

General Fund revenues are used to pay for many of the direct services that our citizens use every day, such as Police, San Diego Fire-Rescue, parks and libraries. For Fiscal Year 2004, General Fund revenues are forecasted at \$739.8 million. The growth in these

## Executive Summary

revenues depends primarily on the economy. When the economy expands, revenues should increase. Alternatively, when the economy slows, revenues are expected to perform accordingly. Given this relationship, key economic indicators in San Diego County are helpful in formulating revenue estimates. Statewide and national economic trends may also impact revenue sources, along with policy decisions made at the State and federal levels; however, specific attention has been paid to local trends when forecasting revenue for Fiscal Year 2004.

The five General Fund major revenue sources, which are Property Tax, Sales Tax, Transient Occupancy Tax, Franchise Fees and Motor Vehicle License Fees, comprise approximately 68.9 percent of the total General Fund revenue. These revenues are discussed in detail in the Financial Summary General Fund Revenue section of this volume.

Provided below are the major revenue projected growth rates utilized in the preparation of the Fiscal Year 2004 Proposed Budget, the revised Fiscal Year 2003 year-end projection over Fiscal Year 2002 actual receipts, as well as actual growth rates for Fiscal Years 2001 and 2002.

### Major Revenues

Major Revenue Sources	FY 2001 Actual Growth Rate	FY 2002 Actual Growth Rate	FY 2003 Budget Growth Rate	Revised FY 2003 Growth Rate	FY 2004 Budget Growth Rate
Property Tax	9.8%	7.3%	9.0%	7.0%	8.0%
Sales Tax	8.5%	3.6%	4.0%	0.9%	3.0%
Transient Occupancy Tax	13.5%	-9.8%	6.0%	5.3%	5.5%
Motor Vehicle License Fees	9.7%	4.0%	4.0%	5.2%	3.0%
Franchise Fees <sup>(1) (2)</sup>	17.8%	33.7%	-2.6%	-20.7%	15.8%

<sup>(1)</sup> This reflects the volatility of natural gas prices.

<sup>(2)</sup> Fiscal Year 2004 Franchise Growth Rate does not include \$38.8 million in undergrounding fees.

While the proposed budget is primarily balanced by reducing expenditures, the addition of revenues is also used. Two million dollars in miscellaneous revenue is included in the proposed budget in anticipation of revising certain cost recoverable fees and charges such as Special Event Fees. The Park and Recreation Department proposed budget includes approximately \$400,000 in additional revenue for items such as catering fees and non-resident Learn-to-Swim fees. An increase in parking meter rates is also included in the Fiscal Year 2004 Proposed Budget solution, as is a \$1.00 per ton increase in the franchise charges for waste haulers in the City.

At the April 2, 2003, Rules, Finance, and Intergovernmental Relations Committee meeting, the City Manager presented several sources of revenue currently being evaluated by the City Attorney and City staff to determine voter requirements and viability. Any consideration of new or expanded revenue sources would be focused on implementing revenue sources that are broad based and equitable. The Rules Committee directed the City Manager to work with community and industry groups in developing major revenue options and recommendations and return to the Rules Committee with the outcome of these meetings.

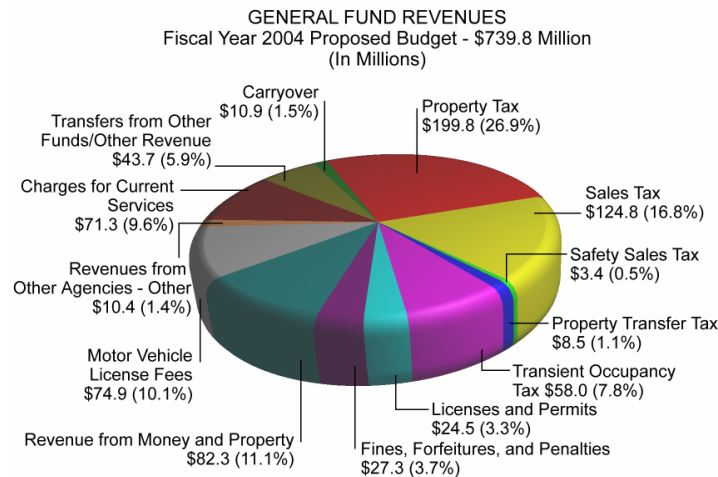
# Executive Summary

The industry groups may include representatives from the following: San Diego Chamber of Commerce, Taxpayers Association, Hotel-Motel Association, San Diego Convention and Visitors Bureau, League of Women Voters, and Economic Development Corporation, or other key stakeholders.

Several current or new sources of revenue have been identified as having potential to positively impact General Fund revenue for the City of San Diego. These sources were analyzed by examining the type of funding, how San Diego compares with other California cities, and potential impacts. The potential sources of revenue include:

- Business License Tax
- Franchise Fees
- Parking Tax
- Property Transfer Tax
- Refuse Collection Fee
- Storm Drain Fee
- Transient Occupancy Tax

For these revenues that require a public vote, there are no scheduled elections in calendar year 2003, so any election that is to be held on new or increased taxes will likely have to wait until calendar year 2004, unless a special election is scheduled. Any proceeds realized by implementing any of these revenues would have less than a full year impact for Fiscal Year 2004.



## Significant General Fund Changes From the Fiscal Year 2003 Budget

The City of San Diego must prepare a proposed budget in accordance with the prevailing economic conditions. The General Fund, in particular, is susceptible to fluctuations in the economy. The City has taken efforts to reduce expenditures and provide services effectively and efficiently through Performance Based Budgeting and the Organization Effectiveness and Optimization Programs. As discussed in the Fiscal Year 2004 Financial Forecast report presented to the City Council on March 17, 2003, most General Fund departments reduced their Fiscal Year 2004 General Fund proposed budgets which amounted to a total of approximately \$30 million in reductions. However, some departments will reflect overall increases in their Fiscal Year 2004 Proposed Budget due to non-discretionary increases and to accommodate new facilities that will open during Fiscal Year 2004. The chart below represents the change in the General Fund over the last three fiscal years, highlighting the low proposed increase for Fiscal Year 2004.

### General Fund Summary Fiscal Years 2002 - 2004

	FY 2002 <sup>(1)</sup>	FY 2003	FY 2004
General Fund Budget	\$711,877,206	\$729,330,522	\$739,846,953
Percent Change	8.24%	2.45%	1.44%

<sup>(1)</sup> Fiscal Year 2002 does not include the General Fund Street Division Subsidy in order to be consistent with Fiscal Years 2003 and 2004.

Significant changes limit the ability to provide customer services at the expected levels of the community for priority areas such as public safety, parks and recreation, libraries, transportation, sanitation and health, deferred maintenance, as well other areas, due to funding constraints. The chart below summarizes the changes that are discussed in this section.

### General Fund Changes by Program Area

Program Area	Proposed Fiscal Year 2004 Budget	Annual Fiscal Year 2003 Budget	Proposed Change from Fiscal Year 2003
Public Safety	\$398,745,726	\$382,585,564	\$16,160,162
Operations Support	107,476,923	111,228,996	-\$3,752,073
Park and Recreation	66,713,917	68,082,120	-\$1,368,203
Internal Support/Management	47,507,143	46,720,551	\$786,592
Sanitation and Health	42,770,700	40,107,961	\$2,662,739
Library <sup>(1)</sup>	35,627,407	36,650,651	-\$1,023,244
Neighborhood Services	28,504,798	31,514,492	-\$3,009,694
Transportation	12,500,339	12,440,187	\$60,152
<b>TOTAL</b>	<b>\$739,846,953</b>	<b>\$729,330,522</b>	<b>\$10,516,431</b>

<sup>(1)</sup> Library expenditures include grant funds, which are not included in this General Fund total.

# Executive Summary

## General Fund Revenue Growth Over Fiscal Year 2003 Budget

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Net Revenue Growth	\$ 10.5 million
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## General Fund Expenditure Growth Over Fiscal Year 2003 Budget

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Annualization of FY 2003 and FY 2004 negotiated salaries and benefits	\$ 20.7 million
Retirement contributions	\$ 11.0 million
Workers Compensation	\$ 5.8 million
Non Discretionary Accounts (Insurance, Energy, Vehicle Usage, Information Technology, etc.)	(\$ 0.7 million)
New facility and annualization operating costs (Park and Recreation, Library and Fire-Rescue Facilities)	\$ 3.7 million
Department Additions	\$ 4.8 million
Department Reductions	(\$29.8 million)
IT&C Department Reorganization	(\$ 5.0 million)

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Net Expenditure Growth	\$ 10.5 million
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## Personnel-Related Obligations

With personnel expenses accounting for 77.13 percent of the General Fund budget, negotiated salary and retirement rate increases totaling \$31.7 million will have a significant impact on Fiscal Year 2004 expenditure levels.

The Fiscal Year 2004 Proposed General Fund Budget includes an overall increase of \$20.7 million for costs due to negotiated salaries and wages, average salary, and average fringe adjustments. Salary increases for Local 145, Local 127 and the Municipal Employee's Association totaled \$10 million and are entering the second year of a three year contract in Fiscal Year 2004. The Proposed Budget also includes negotiated increases of \$8.6 million for the Police Officer's Association, which will enter into the first year of a two-year contract in Fiscal Year 2004. The remaining \$2.1 million reflects adjustments to average salaries, unclassified salaries and position reclassifications.

An increase of \$11.0 million in General Fund departments for retirement contributions in the upcoming fiscal year is attributed in part to plan improvements negotiated with the employee bargaining units, and the commitment to maintain the funding levels in the retirement system that were agreed to by the City and the San Diego City Employee's Retirement System Board. The primary reason for increases in contributions, however, is the significant market losses the Retirement System has suffered due to the decline of the stock market.

## Executive Summary

Workers' Compensation costs have also risen sharply in recent years, due to rising medical costs, a marked increase in litigation, and extended claim duration periods. The General Fund contribution has increased \$5.8 million in Fiscal Year 2004.

The Fiscal Year 2004 Proposed General Fund Budget includes a net reduction of 206.63 positions.

### General Fund Position Changes

Budgetary Savings Plan	(191.44)
General Fund - New	3.00
Reimbursable from Other Sources - New	1.50
Reallocation/Reorganization	(51.22)
New Facilities/Annualizations	31.53
<b>Total General Fund</b>	<b>(206.63)</b>

191.44 positions are proposed to be reduced in Fiscal Year 2004 as part of the Budgetary Savings Plan. These positions are the result of departments reducing their Fiscal Year 2004 budget based on positions that would minimally impact services.

3.00 new positions are proposed to be added to the Fiscal Year 2004 Proposed General Fund Budget. These positions are for new or mandated programs.

1.50 reimbursable positions are proposed to be added for Fiscal Year 2004. The positions will be funded by Non General Fund departments or grant funds.

51.22 positions were reallocated between Non General Funds and the General Fund. A total of 2.18 positions were reallocated within the Park and Recreation, Community and Economic Development, San Diego Fire-Rescue, and Special Projects Departments. The reorganization of the Communications Division of the Information Technology and Communications Department reallocated 53.40 of these positions. These General Fund positions were transferred to a newly created Non General Fund Communications Division, in order to accurately allocate Citywide expenses for wireless and telecommunication expenses.

A total of 31.53 General Fund positions are associated with New Facilities and Annualizations for Fiscal Year 2004. New Facilities positions are a result of new facilities coming on line in Fiscal Year 2004. Annualizations are for those positions associated with facilities that were partially funded in Fiscal Years 2003, and will be fully budgeted in Fiscal Year 2004. In Fiscal Year 2004, new facilities account for 28.53 positions and annualizations account for 3.00 positions.



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## Non-Discretionary Expenses

Non-discretionary expenses include adjustments to items such as electricity, gas, water, sewer, insurance, and office leases after thorough analysis and forecasting by City departments. The total non-discretionary change in the General Fund budget is a decrease of \$0.7 million. Departments, fiscal staff and City experts will continue to evaluate non-discretionary expenses year-round.

## New Facilities

A total of \$3.7 million has been included in the Fiscal Year 2004 Proposed Budget for new facilities and annualization of Fiscal Year 2003 facilities. Examples of costs for new facilities include staffing, utilities, and maintenance. Some new facilities have been delayed as a cost savings to the General Fund. Departments with new facilities opening in Fiscal Year 2004 include:

Department	Number of Facilities
Park and Recreation	32
Library	2
San Diego Fire-Rescue	1

### New Facilities - Park and Recreation

The Park and Recreation Department provides a multitude of facilities and services for neighborhoods and plays a key role in the quality of life for the community. The Department manages three major elements: Parks, Recreational Facilities, and Recreational Programs. With over 35,000 acres of parks, open space and aquatic areas available throughout the City, the Department provides a wide variety of opportunities for San Diegans to renew mind, body, and spirit in healthful outdoor settings.

The Fiscal Year 2004 Proposed Budget includes the addition of 15.74 positions and support costs totaling \$2,089,236 for 21 new and/or enhanced park and recreation facilities, listed below. Some sites will open after July 1, 2003 and are budgeted for partial year funding only, with position annualization expenses to occur in Fiscal Year 2005.

- Balboa Park Facilities-various
- Black Mountain Ranch Community Park Fields/Restrooms
- Black Mountain Ranch Neighborhood Park West
- Canyonside Park Lighting Upgrade
- Fiesta Island Development & Monitoring
- Imperial and Marketplace Corridor
- Kumeyaay School Joint Use
- Memorial Skate Park
- Mission Valley East Median Landscape Improvements
- N. Clairemont Community Park Tot Lot Expansion and ADA Upgrade
- Open Space Maintenance/Management (646 additional MSCP acres Citywide)
- Otay Valley River Park (New property acquisition in Fiscal Year 2004 and habitat restoration)
- Pacific Beach Joint Use Site
- Pantoja Park Off-leash Area (Pending approval of project)



## Executive Summary

- Rancho Bernardo Community Park Lighting Upgrade
- San Diego River Valley (New property acquisitions in Fiscal Year 2004 and habitat restoration)
- South Clairemont Community Park Picnic Shelter
- Tot Lot Improvements for ADA/Safety at: Ridgewood, Sandburg, Carmel del Mar and Solana Highlands
- Via Del Norte Mini-park Playground
- Wangenheim Middle School Field Lighting
- Zamorano School Joint Use

The annualization of 3.00 positions and support costs that were partially funded in Fiscal Year 2003, totaling \$244,761, are also included for 11 new and/or enhanced park and recreation facilities. The annualized facilities include:

- 39th Street Neighborhood Park
- House of Puerto Rico
- J Street Mini Park Playground
- La Mirada Elementary School Joint Use
- Lewis Middle School Turf Joint Use
- Lindbergh Park Restroom ADA Upgrade
- McKinley Elementary School Joint Use
- Mission Beach Boardwalk Widening
- Mountain View Community Park Expansion
- Princess Del Cerro Tot Lot Expansion
- Tecolote Nature Center Expansion

### **New Facilities - Library**

The Fiscal Year 2004 Proposed Budget includes the addition of 7.47 positions and support costs totaling \$814,946 for two library facilities.

#### **James Edgar and Jean Jessop Hervey/Point Loma Branch Library**

This project provides for a new 25,890 square-foot branch library on land adjacent to the existing Point Loma Branch Library at 2130 Poinsettia Drive. Major funding for this project has been provided by a \$5 million gift from the Hervey Family via the San Diego Foundation. The new facility is scheduled to open in early Fiscal Year 2004. The library will have space for 80,000 books and other materials, and will include a community room for 140 people, a computer room with 20 computers, and seminar rooms. The children's library, which will include a puppet theatre, art area and Story Time Zone, will be the largest in any library in the City.

#### **Florence Riford/La Jolla Branch Library Expansion**

This project provides for a 15,700 square-foot expansion of the existing 10,000 square-foot facility located at 7555 Draper Avenue. The Friends of the La Jolla Library are providing the funding for this project. The expanded facility is scheduled to open in mid-Fiscal Year 2004.

The expansion includes a multi-level addition with a children's library, young adult area, La Jolla history room, reading room, meeting rooms, and stack areas for a 120,000-book capacity. Public art and display space will include wrought iron stair rails and a gate, sculpted light fixtures, a stained glass wall, and art and photo galleries.

# Executive Summary

## **New Facilities - San Diego Fire-Rescue**

The Fiscal Year 2004 Proposed Budget includes the addition of 5.32 positions and support costs totaling \$590,901 for the new Fire Station 46, scheduled to open in February 2004. This 10,000 square-foot station will be located at the intersection of Camino del Sur and Lazanja and will serve the communities of Black Mountain Ranch and Torrey Highlands. Station 46 will be initially staffed as a single house with a crew to operate one fire engine. There is room for future expansion of a combination fire engine/truck and an ambulance. This station is the first of three fire stations that will be required to provide fire protection to the North City Planned Urbanizing Area and is consistent with City Council policy to provide six-minute response times to all residential areas.

## **Department Additions**

Department Additions comprise new programs or services and enhancements to existing programs and include items such as: Library materials, increases to the Park and Recreation Department's Senior and Disabled Services Programs, increase to animal control contract with the County of San Diego and funding for the lease of the Park and Ride at College Grove. Specific information on these and other adjustments can be found in Volumes II and III, Department Detail of the Fiscal Year 2004 Proposed Budget Document.

## **Department Reductions**

As outlined on page eight of this report the Fiscal Year 2004 Proposed Budget expenditure requirements exceeds the revenue growth forecasted for the General Fund. This increase in expenditure requirements is primarily attributed to increases to negotiated salaries, workers compensation costs, and retirement contributions. The large expenditure increase in conjunction with a lower revenue increase necessitated most General Fund departments to reduce their appropriations in order to develop a balanced General Fund budget. The net effect of this approach will be Citywide reductions in operations. These reductions are in addition to appropriation reductions of approximately two percent in all General Fund departments for the Fiscal Year 2003 Annual Budget. In addition, during Fiscal Year 2003, departments made a variety of further reductions.

The total reductions proposed for Fiscal Year 2004 are approximately \$30 million, or the equivalent of 4.1 percent of the Fiscal Year 2003 General Fund. These reductions include decreases in park maintenance services, hours of recreation operations, facilities maintenance, library hours and community service centers hours. Public Safety departments will make reductions primarily comprised of decreases in non-sworn positions and operations. Every effort has been made to minimize public safety service level impacts.

## **Police**

To meet the Fiscal Year 2004 budget and achieve savings with minimal impact on police services delivered to the public, the Police Department will engage in the following initiatives:

- Reduce administrative, non-sworn staffing by 36.75 positions for net savings of approximately \$1.94 million.

# Executive Summary

- Continue to defer filling approximately 80.00 vacant non-sworn positions for an annual net savings of approximately \$3.75 million.

These initiatives combined represent approximately a two percent savings over the Police Department's Fiscal Year 2003 budget.

## **San Diego Fire-Rescue**

Although the San Diego Fire-Rescue Department Fiscal Year 2004 Proposed Budget is \$4.6 million greater than the Fiscal Year 2003 budget, it includes a reduction of \$2.1 million in order to help offset the required expenditure increases. These reductions included use of compensatory time for Fire Dispatchers and Lifeguards, and other non-personnel expenses in supplies, services, equipment outlay and training programs. These reductions were selected to minimize direct impacts to services provided to the citizens of San Diego. No fire stations will be closed and response times will be met.

The Fiscal Year 2004 Proposed Budget for San Diego Fire-Rescue includes the implementation of the Department reorganization. In addition, 2.00 Clerical Assistant II positions were eliminated from the Fiscal Year 2004 Proposed Budget. This clerical staff reduction will impact the Department's ability to support service programs related to health and safety, community education and data entry.

## **Park and Recreation**

The Proposed Budget includes significant reductions for the Park and Recreation Department which will impact programs and services Citywide. These reductions will not include the closing of facilities, but some programs will have functions eliminated. Programs which will be impacted include: reduction of operating hours at recreation centers, swimming pools, Balboa Park Activity Center, Municipal Gym and Morley Field, impacting public recreational opportunities Citywide; interpretive and educational programs along with enforcement efforts will be impacted due to the reduction of park rangers.

Maintenance functions which will be reduced include: restroom maintenance; Citywide mowing and turf maintenance; infield redevelopment; equipment repair; horticultural management and seasonal plantings; fire ring maintenance; litter and weed abatement; open space maintenance; and kelp/eel grass removal.

Reduction of funds available for the Community Matching Funds Program will decrease opportunities for minor park improvement projects and program enhancements; reduction of funds for grant matches will reduce the amount of funds available to match state and federal grants; and reduction of a development officer will reduce the ability to assist in securing outside funding sources for park programs and capital improvements.

## **Library**

Given the continuing financial difficulties the City will face in Fiscal Year 2004, the Library's budget will be maintained at five percent of the City's General Fund Proposed Budget, in accordance with the recently amended Library Ordinance. On March 17, 2003 in Ordinance O-2003-127, the City Council temporarily delayed budget increases provided for by the Library Ordinance, thereby holding the Library Department budget to five percent of the General Fund including anticipated grants. Although it will add staff to

# Executive Summary

support the opening of two new facilities, the Library reduced support staff and decreased the number of extended weekday and Sunday service hours to help contribute to a balanced General Fund budget.

As a result of the support staff reduction, entering information into the online catalog will be slowed, ordering new library materials may be delayed, and some cleaning and minor repairs may be delayed. Deferred maintenance expenditures were reduced by \$1.0 million.

Extended weekday service hours will be reduced at ten branch libraries, and only the Mission Valley Branch Library and Central Library will be open on Sundays. It is predicted that attendance and circulation will decrease at the affected libraries as a result of the reduction in hours.

## **Facilities**

The City has not only enacted direct reductions to contain General Fund expenditures, but has also explored alternatives to reductions such as entrepreneurial contracting efforts in the Facilities Division of the General Services Department. This will help to retain skilled trade positions in Fiscal Year 2004 that would have been eliminated. Building remodeling, Americans with Disabilities Act upgrades, facility improvements and concrete work are among the projects the Facilities Division will be performing for Non-General Fund Departments, San Diego Data Processing Corporation, and other non-City entities. By shifting to revenue-supported operations, budget reductions will be offset. However, there will be an impact to General Fund departments and facilities such as delays in routine and preventive maintenance for the City Administration Building, the Development Services Center, and other General Fund City facilities.

## **Community Service Centers**

The Community Service Centers Program's Fiscal Year 2004 Proposed Budget will generate a net savings of approximately \$400,000. This amount will consist of \$72,000 in additional revenue and \$335,000 in reductions that will eliminate 1.00 Community Service Center Manager and 4.00 Public Information Specialist positions. There are 2.00 Community Service Center Managers that are not reflected in the Fiscal Year 2003 Annual Budget and they will also be reduced. These reductions will result in reduced hours at many of the Community Service Centers, as several centers will only be able to offer part-time hours to the public. Staffing will be restructured so that staff may work at multiple Community Service Centers. For example, a Community Service Center Specialist may work at one Center in the morning and at another in the afternoon. This will result in limited coverage for backup, resulting in more frequent closures. Police storefront hours will also be limited at several locations. The Community Service Center Program may begin charging for many services that currently are free, including the use of community meeting rooms. Additionally, Saturday and special evening hours will no longer be available.

## **Citywide Management**

To further streamline City operations, managerial positions have been reduced Citywide. The City Manager is eliminating 20.75 unclassified, managerial staff. This includes 7.00 unclassified management positions that were in a limited and supplemental status. The reduction of management positions represents approximately nine percent of the 240 unclassified management positions who report to the City Manager.

# Executive Summary

## Unfunded Needs

There are several needs that require additional funding in Fiscal Year 2004 and in future years. Though essential, these items will not be funded at this time, due to budget constraints. These items include, but are not limited to:

- Basic Operating Needs – to provide customer service at expected levels of the community
- Deferred Maintenance
- Fleet/Fire Apparatus
- The Strategic Framework – the infrastructure needed to support the “City of Villages” concept
- National Pollution Discharge Elimination System (NPDES) Permit – to fund efforts to meet permit requirements
- Underground Storage Tanks
- Public Safety Overtime Needs

## Restructuring/Reorganization

### Communications Division, Information Technology and Communications Department

In Fiscal Year 2004 the Communications Division of the Information Technology and Communications Department (IT&C) will begin to operate as a Special Revenue Fund department. In Fiscal Year 2003, Communications Division was included in the General Fund. For the Fiscal Year 2004 Proposed Budget, \$5,048,497 and a total of 53.40 positions were transferred into this Special Revenue Fund.

Communications Division is responsible for the design, installation, and maintenance of the City’s core wireless communications infrastructure and services. These services are used by all City departments in order to accomplish their specific missions. Another service provided is the cost of procuring, developing, and managing the City’s radio communications sites, which includes the digital microwave network, dispatch facilities, and remote mountaintop sites.

With the financial challenges facing the City of San Diego, careful examination has been given to the current budget to ensure that the General Fund is not burdened with costs that appropriately should be shared with Non-General Fund departments who directly benefit from these services. This reorganization will properly account for charges to Non-General Fund departments beginning in Fiscal Year 2004. The reorganization will generate a net savings of \$1.2 million to the Fiscal Year 2004 General Fund Proposed Budget.

In positioning the City to strategically move forward with the implementation of the City’s IT Strategic Plan and wireless communications objectives, it has become necessary to view the use of technology from a global perspective and strive to provide state-of-the-art information technology and wireless communications devices and infrastructure for the City of San Diego.

# Executive Summary

## **Reorganization of Park and Recreation Department's Park Planning Division and Engineering and Capital Projects Department's Public Buildings and Parks Division**

Effective July 1, 2003, the parks-related capital improvements program currently managed under the Engineering and Capital Projects Department's Public Buildings and Parks Division will shift to the Park and Recreation Department's Park Planning Division, combining the planning and design of Citywide park projects. The newly combined division will manage approximately 300 projects with a capital budget of nearly \$330 million. Included in future growth will be projects anticipated to be funded by State Proposition 40 grant funds beginning in Fiscal Year 2004.

This merger will create the opportunity for enhanced communication; will provide for continuity in project management from concept to completion; and will reduce confusion by citizens and City offices about project responsibilities. Additionally, the Park Planning Division has established ongoing relationships with the more than 80 park advisory groups that can be better served by integrating the full scope of capital projects under one departmental point of contact.

Recent and continued growth in park capital projects, along with the goal of developing a system-wide park and open space master plan, necessitate a comprehensive and streamlined approach to park design and construction. Although this reorganization will result in a more efficient use of existing resources, staffing requirements will need to be addressed to keep pace with the growing capital program. These managerial-directed changes will be reflected in the Fiscal Year 2004 Final Budget.

## **San Diego Fire-Rescue Reorganization**

Following a comprehensive organizational review and assessment of all service areas by the Fire Chief, San Diego Fire-Rescue developed a phased plan for restructuring the Department. The process included feedback provided by deputy level managers, battalion chiefs, lifeguard lieutenants, the general workforce and labor groups. A key component of the plan is the civilianization of key administrative positions, which is expected to provide supervisory stability and continuity of effort. Twenty unbudgeted staff positions have also been incorporated into the reorganization planning. Non-uniformed personnel will replace uniformed personnel at the Communications Center and Repair Facility, restoring uniformed personnel to operations duties. The formation of the Special Operations and City Office of Homeland Security divisions produced additional personnel adjustments. The resulting staff realignment for the reorganization will result in a net increase of 2.68 positions and create an annual savings of approximately \$26,000.

## **City Reservoir Concessions**

The Park and Recreation Department will assume management, via a Memorandum of Understanding with the Water Department, of City reservoir concession operations previously operated by private concessionaires.

Utilizing City forces, the Department will operate concession operations including:

- Operate snack bars
- Sell fishing tackle, bait, use permit and boating tickets



## Executive Summary

- Sell State of California Fish and Game Licenses and License stamps
- Rent motor boat, and sail boat equipment
- Provide public information regarding City reservoir operations
- Provide increased promotions and advertisement

It is anticipated that implementation will occur in phases, starting in early Summer 2003. The net effect of this unique merging of Park and Recreation resources with the Water Department operations will create further career opportunities for General Fund employees and will assure high quality services for the Water Department.

### **Reorganization of the Transportation Department's Traffic Engineering and Engineering and Capital Projects Department's Transportation and Drainage Design Divisions**

In an effort to reduce management positions and to take advantage of the synergy between these transportation engineering functions, the Traffic Engineering Division of the Transportation Department will be consolidated with the Transportation and Drainage Design Division of Engineering and Capital Projects Department. Both of these functions will now reside within the Engineering and Capital Projects Department. This will be implemented on May 5, 2003 and incorporated into the Fiscal Year 2004 Annual Budget.

## Reductions in other Jurisdictions

The City of San Diego's current financial situation, coupled with the lingering effects of the recent economic downturn, is consistent with the rest of the State and other cities across the United States. The impacts that other cities, including Long Beach, Pittsburgh and other jurisdictions are facing will have similar affects on the quality of services provided by these municipalities.

### **County of Los Angeles**

Los Angeles County is proposing to reduce law enforcement, health, recreation, library, and other public services to close an \$800 million budget gap for the coming fiscal year. More than 2,000 county jobs would be eliminated under Chief Administrative Officer David Janssen's plan.

### **City of Los Angeles**

The City of Los Angeles' top budget priority for Fiscal Year 2004 is hiring more police officers. The Mayor, James K. Hahn, plans to pay for increases in police officers by raising \$30 million by increasing trash rates to \$10 from \$6 a month for single family homes. The Mayor's budget also includes modest increases for parks and recreation for the after school program, even as the budget reduces tree trimming, street paving and other needed services.

### **City of Long Beach**

The Long Beach City Council recently approved a budget plan to eliminate a \$90 million shortfall over the next three years. The City of Long Beach had a \$50 million shortfall for the Fiscal Year 2003 budget that was balanced by drawing on the reserve fund or from unexpected income. It has been estimated that about \$85 million has been depleted from reserves in recent year budgets.



# Executive Summary

## **City of San Jose**

The City of San Jose is projecting an estimated \$76 million deficit, while its redevelopment agency is facing a shortfall of \$19 to \$49 million. The City Manager stated that since impacts of the final State budget on city funding are still unclear, he is preparing two budget proposals. One he calls “unpleasant” and the other “really bad”. The proposal may include using reserves, raising fees, and cutting programs and services.

## **City of Pittsburgh**

The City of Pittsburgh is facing a projected budget deficit of \$40 million to \$50 million. The City of Pittsburgh is seeking assistance under the Financially Distressed Municipalities Act, or Act 47. This involves state takeover of the city, allowing the state to negotiate contracts with fire, police, and paramedics. The city faces difficult budget choices every year resulting from a legacy of rising costs, particularly from rising public safety costs.

## **City of Denver**

In the City of Denver, city workers face possible layoffs and homeowners face a \$10 monthly fee for trash collection for the first time. Those are some of the proposed solutions to close the projected \$43 million to \$50 million city budget deficit. The Mayor asked city departments for a seven percent reduction in operating budgets – up from a four percent cut requested in March 2003. Budget cuts and increased fees are expected to take effect by July and perhaps sooner.

# Economic Forecast

Despite economic recession both nationally and Statewide during calendar year 2002, the San Diego economy managed to grow in 2002, though at a slower rate, according to the San Diego Regional Chamber of Commerce Forecast 2003. Today, the region continues to economically outperform the nation and the State. The local economy is expected to experience another year of economic growth in calendar year 2003. The Gross Regional Product (GRP) for the San Diego Region is projected to expand by an inflation-adjusted 3.3 percent or \$133.6 billion. According to the San Diego Chamber of Commerce Economic Forecast 2003, however, uncertainties in the national economy, including the State of California budget deficit, could have a negative impact on the local economy.

## Key Economic Indicators

The following economic indicators for San Diego County are based on the San Diego Regional Chamber of Commerce, Economic Research Bureau in the “Forecast 2003 Economic Bulletin” for calendar year 2003. These represent several of the indicators closely monitored by the City. All data listed below are on a calendar year basis.

- **Employment:** San Diego’s estimated unemployment rate was 4.3 percent for 2002 compared with an actual rate of 3.4 percent in 2001. The projected 2003 year-end unemployment rate is 4.4 percent.
- **Personal Income:** The 2003 projected per capita income is \$35,979, an increase of 3.2 percent from an estimated \$34,848 in 2002.
- **Retail:** Sales are forecasted to reach \$28.3 billion in 2003, an increase of 3.7 percent from an estimated \$27.3 billion in 2002.
- **Housing prices:** The median price of a single-family home increased by 14.7 percent in 2002 over 2001, and is projected to reach \$387,200 in 2003, an 8.0 percent increase over 2002.

## State Budget

After several years of economic prosperity, the State of California’s economy, along with the national economy, entered into a recession. The events of September 11, 2001 further weakened California’s economy. Recently, Governor Gray Davis announced that the State budget deficit is likely to be \$35 billion. In his 2003-2004 proposed budget and current year plan, the Governor addresses the deficit through major reductions and tax increases. In contrast to last year’s plan, which focused on onetime actions such as deferrals and funding redirections, the current plan contains major spending reductions, including across the board cuts in K-12 educational spending, realignment of health, child care and social services programs to local governments and elimination of the backfill for Motor Vehicle License Fees. In addition, the ongoing proposed solution for balancing the State’s budget includes permanent increases in taxes on personal income, cigarettes and Sales Tax.

The Governor’s proposal to address the State deficit affects the City in several ways. The most significant potential effect is the elimination of the backfill for Motor Vehicle License Fees (MVLF). If approved, the State would no longer provide funding to local governments to make up for the 67.5 percent fee offset for vehicle owners upon registering vehicles each year. State law allows for an increase in the MVLF for vehicle owners when the State’s budget is unable to afford the offset to local governments. Some State legislators are confident that this provision will take affect and protect MVLF revenue; however, other legislators and taxpayer advocate groups vow a legal battle should any tax increase be implemented. This amounts to over \$51 million in potential revenue reductions for the City of San Diego in Fiscal Year 2004. The Governor also proposes elimination of the jail booking fee reimbursement for an impact of \$5.2 million. A reduction to the Public Library Fund could cost the City as much as \$565,000. Currently, this grant funds 30 staff positions and non-personnel expense for fundraising. Additionally, City redevelopment agencies may lose up to \$7.5 million due to shifts of property tax increments to the Educational Revenue Augmentation Fund (ERAF).

# Executive Summary

The following table represents the Governor's proposals that, if approved by the State Legislature, would have a very extreme impact on the City's General Fund:

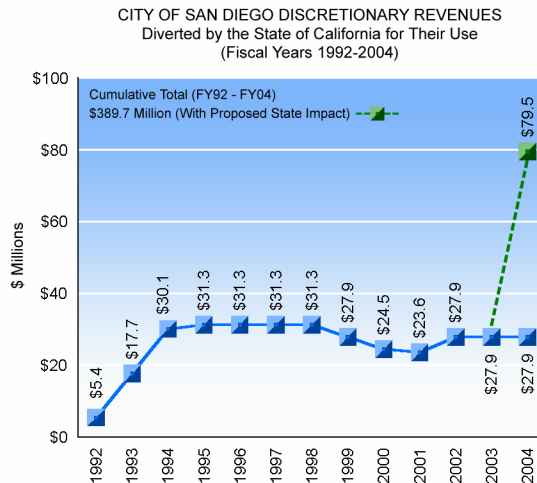
<b>FY 2004 (July 1, 2003)</b>	<b>Governor's Proposal</b>
VLF Backfill	\$51.6 million
Booking Fee Reimbursement	\$ 5.2 million
Libraries	\$ 565,000
6 to 6 Grants	\$ 2.0 million
Road Maintenance	\$ 2.5 million
Total	\$61.8 million

## **City of San Diego Impact**

The loss of these monies in the City's General Fund would force the City to reprioritize the use of existing resources. This may include further reductions to park maintenance and recreation center hours, library services and hours of operation, social services, and allocations to community groups through the Special Promotional Programs. Potentially deep reductions to Public Safety could include reductions in the number of detectives on the police force, decrease in air support and decreased availability of fire engines and truck companies. Although we would prefer not to take these actions, such a large reduction in funds would necessitate a significant impact to the City's core service programs.

Several alternatives have been presented that may protect some revenues to local governments such as the City of San Diego. The League of California Cities continues to oppose any proposition to balance the State's deficit by reducing revenue allocated to local governments. Additionally, the Legislative Analyst's Office does not endorse passing the burden of the VLF tax relief to local governments. Other proposals that do not include significant reductions to local governments include rolling over debt into future fiscal years, as in the Senate Republican's plans, or additional reductions to the State Budget in order to allow the backfill to continue to local governments, as suggested by the Howard Jarvis Taxpayer's Association. No recent legislation has come forward to answer definitively the question of potential impacts to the City of San Diego. More information and proposals are expected to be brought forward at the time of the Governor's May Budget Revise.

# Executive Summary



The chart above reflects revenues diverted from the City's General Fund between fiscal years 1992 and 2002 and projects funds diverted for fiscal years 2003 and 2004. Should the Governor's proposal to eliminate and reduce several City revenues be implemented, the cumulative total of funds diverted from the City of San Diego's General Fund will reach nearly \$390 million through Fiscal Year 2004.

## State of California May Budget Revise

Although the California State Legislative Analyst's Office estimates the State's General Fund deficit to be closer to \$26 billion, all projections indicate that the State's budget deficit is serious. The Governor's proposal projects that State revenue will decline from \$73.1 billion in 2002-03 to \$69.2 billion in 2003-04. In accordance with the Governor's proposal for major program reductions and program realignment to local governments, State expenditures are projected to fall from \$75.5 billion 2002-03 to \$62.8 billion in 2003-04.

The State Constitution requires that the Governor submit a budget to the Legislature by January 10 of each fiscal year. An update of the State's General Fund revenues and changes in expenditures, otherwise known as the May Revision, is usually due by May 14. By constitutional requirement, the Governor's Budget must be accompanied by a Budget Bill. The State constitution also requires that the Legislature pass the bill by June 15 of each fiscal year. The City of San Diego Charter mandates, however, that the City Manager release the City's Proposed Budget by the first City Council meeting in May. Consequently, only preliminary information regarding the State of California's fiscal situation and budget proposals that relate to local governments is available at this point in the City's budget process. In the City's June Revision, released in mid-June, updated revenue and expenditure data, including the State's budget status, will be provided to the Mayor and City Council prior to budget deliberations.

Due to the uncertainty regarding the State budget process and the impact on the City, we will continue the current hiring freeze into Fiscal Year 2004 until the State budget is adopted.

# Executive Summary

## City Reserves

The City maintains several reserves for its operations. These include reserves for the General Fund, Debt Service and Tax Funds, Special Revenue Funds, Enterprise Funds, Capital Improvement Funds, and Internal Service Funds that can only be used for their intended purpose. Further detail can be found in Schedule V, “Summary of Revenues, Expenditures and Fund Balances”, and some of the more significant Non-General Fund reserves are described later. Reserves used to support General Fund operations include the Allocated Reserve and the Unappropriated Reserve.

The Allocated Reserve is used to carry forward current year funds for projects that could not be completed prior to the end of the fiscal year. As part of the Fourth Quarter Budget Adjustment, the Mayor and City Council are asked to authorize the City Auditor and Comptroller to carry forward funds for specific projects.

The Unappropriated Reserve, also known as the General Fund Reserve, was established to fund major General Fund emergencies and to assist in maintaining a favorable bond rating. Specific expenditures are not budgeted within this reserve. For the Fiscal Year 2004 Proposed Budget, \$1 million will be added to this reserve, bringing the total to \$22.4 million. No specific legal guidance or policy restrictions are placed on the use of these funds. However, Mayor and City Council authorization is necessary to expend these funds.

For Fiscal Year 2004, the General Fund Reserve as a percentage of the General Fund will be slightly over three percent, an increase over Fiscal Year 2003. The Reserve remains untapped in this Proposed Budget, reserved for emergencies.

## Principles of Budgeting and Finance

Development of the Fiscal Year 2004 Proposed Budget presented many challenges. The following principles, which were endorsed by the City Council as recommended by the Blue Ribbon Committee on City Finances, were considered in the budget development process. These principles are being implemented incrementally. These principles will continue to be phased in over a period of time. During Fiscal Year 2004, discussions will occur with the Mayor and City Council regarding the strategies for implementation.

1. Ongoing expenditures should be supported by ongoing revenues. Accordingly, onetime revenues should not be used for ongoing expenditures on a continuous basis.
2. As revised by City Council, October 14, 2002; The General Fund Reserve should be maintained at a minimum of three percent of the General Fund revenues with the goal of bringing General Reserves to a level that is seven percent of General Fund revenues, which includes the goal of bringing the General Fund Reserve to five percent of General Fund revenues within 10 years (by Fiscal Year 2014). The General Fund Reserve should be increased by at least 10 percent of the General Fund revenue increase in excess of two percent in any fiscal year in which General Fund revenues increase by more than two percent over the prior year budgeted revenues until the five percent goal is achieved.

## Executive Summary

3. When capital projects are considered, all associated costs should be identified in order to properly assess future financial impacts.
4. Each enterprise fund should reflect the true cost of operation, including direct and indirect costs of services provided by the General Fund.
5. Activities that are supported by user fees should be fully cost recoverable.
6. Discretionary General Fund revenues should not be earmarked, thereby allowing maximum flexibility in funding decisions on an annual basis.
7. Budget development should be guided by a long term, or strategic budget plan proposed by the City Manager and adopted by the City Council.
8. Once adopted, annual budgets should be amended only when urgency requires, and then by identifying specific funding sources for these new priorities.

## Conclusion

The Fiscal Year 2004 Proposed Budget represents a balanced budget totaling \$2,309,277,790, including 11,076.62 positions and a Capital Improvements Program (CIP) Proposed Budget total of \$502,335,451. Despite the persistent downturn in the economy, the Fiscal Year 2004 Proposed Budget reflects efforts to minimize service level impacts to citizens where possible.

The Fiscal Year 2004 Proposed Budget excludes any action the State may take that will affect the City's Budget, due to a high level of uncertainty about what will be approved by the State Legislature. During these next months, strategizing for these impacts and preparing for the possibility of creating a revised budget once the State's budget is finalized will be a primary focus in order to be equipped to manage these potential effects in the most fiscally responsible manner possible.

As the economy continues to remain uncertain, the Fiscal Year 2004 Proposed Budget requires City operations to contract correspondingly. We will continue to closely monitor economic indicators and to appropriately plan and make adjustments as necessary to maintain a balanced budget while minimizing, to the extent possible, service level impacts to the public.

